

California Department of Corrections

Financial Information Memo

SUBJECT:	FIM NUMBER:
PROMPT PAYMENT PENALTIES	2004-01
REFERENCES:	DATE: January 2, 2004
Budget Letters 98-40 and 01-21 Government Code Section 927 State Administrative Manual Section 8474 FIM 2002-05 and AIM 98-08	

DISTRIBUTION

Regional Accounting Offices
Headquarters Accounting Services Section
Inmate Welfare Fund/Trust Accounting Section

PURPOSE

This Financial Information Memo (FIM) updates and replaces FIM 2002-05 and AIM 98-08. AIM 97-01 remains valid.

BACKGROUND

Legislation passed in January 1999 repealed and replaced Government Code (GC) Sections 926.15 and 926.17 with new GC Sections 927 - 927.12.

DISCUSSION

The California Prompt Payment Act (the Act), GC Sections 927-927.12, requires State agencies to automatically calculate and pay the appropriate late payment penalties if they fail to pay properly submitted, undisputed invoices on the date required by the contract/invoice.

Accounting offices cannot pay vendor invoices prior to the receipt of goods or services. Invoices received prior to the receipt of goods or services must be disputed within 15 working days and will not be subject to late payment penalties if properly disputed.

If the invoice payment due date is different from the contract or purchase order due date, use the contract or purchase order due date. If a specified date is not established by contract or there is no contract then the invoice payment is required within 45 days for an undisputed invoice. This includes thirty days for the vendor invoice processing and payment by the state agency and 15 days for the State Controller's Office.

Department of Finance, Fiscal Systems and Consulting Unit instructions provide that late payment interest penalties be charged to the Fiscal Year in which the penalty accrued. This is typically the same; however, penalties may accrue in June that are not paid until July or later.

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ACTION REQUIRED

The Act requires that state agencies automatically calculate and pay the appropriate late penalties as specified below:

Description	Small Business or Nonprofit Organization (contract <\$500K)	Other Businesses
Number of days for CDC to pay	30 Calendar days	30 Calendar days
Number of days for SCO to pay	15 Calendar days	15 Calendar days
Penalty starts and ends if ORF is used to pay	46 th day until paid by ORF	46 th day until paid by ORF
Penalty starts and ends if SCO is used to pay	1 st day after required payment date* until sent to SCO	1 st day after required payment date* until sent to SCO
Minimum penalty amount	No minimum penalty	Penalty \$75.00 or more
Penalty Rate	0.0025 per calendar day	Per Annual Budget Letter*
Submit Annual Report	Department of General Services by September 30 each year	Department of General Services by September 30 each year
* <u>REQUIRED PAYMENT DATE</u> -The payment date specified in the contract/invoice, or the 30 th day after the date an <i>undisputed invoice is received by the state agency</i> . For example, if the invoice specifies “net 10”, it means that you have 10 calendar days to process it for payment. The penalty starts on the 11 th day after the undisputed invoice is received by CDC and ends on the date the invoice goes to SCO.		
* <u>PENALTY RATE</u> -An annual Budget Letter from Department of Finance advises State departments of the new penalty interest rate at the beginning of each fiscal year.		

Please ensure that staff are paying invoices timely to avoid penalties. When invoices are paid late, ensure staff are calculating and paying penalties as required by law. In addition, at the end of a Fiscal Year, ensure the penalties are charged to the Fiscal Year in which they accrued.

Periodic reporting of penalties is still required. Therefore, continue to submit monthly Late Payment Penalty reports to the Accounting Policies and Procedures Section.

If you have further questions regarding this FIM, please contact Paul Thatcher, Chief, Accounting Policies and Procedures Section at (916) 322-6051.

ORIGINAL SIGNED BY

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